

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

April 21, 2009

The Capital Projects and Bond Oversight Committee met on Tuesday, April 21, 2009, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Bob Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Senators Tom Buford, Julian M. Carroll, and Elizabeth Tori; Representatives Robert R. Damron and Susan Westrom.

Guests: John Hicks, Governor's Office for Policy and Management; John Nicholson, Kentucky Horse Park; Charles Bush, Division of Real Properties; Debby Milton and Suzanne Anderson, Kentucky Infrastructure Authority; Brett Antle, Office of Financial Management; and Bill Mitchell, Lake Williamstown Expansion Committee.

LRC Staff: Don Mullis, Kristi Culpepper, and Samantha Gange.

Representative Damron made a motion to approve the minutes of the March 26, 2009 meeting. The motion was seconded by Senator Tori and approved by voice vote.

Senator Leeper called on Don Mullis, Committee Staff Administrator, to discuss correspondence and information items. Mr. Mullis said members' folder contained several correspondence items: quarterly status reports from the Finance and Administration Cabinet, and the universities that manage their own construction projects, and the Administrative Office of the Courts (AOC); correspondence from the Office of Financial Management; correspondence from the Economic Development Cabinet; correspondence from the Division of Real Properties; and correspondence from the Transportation Cabinet.

Mr. Mullis also noted that members' folder contained several information items: a review of court projects in Owen, Hopkins, and Todd Counties (AOC Court Facilities Standards Committee); the Semi-Annual Report of the Kentucky Asset/Liability Commission; an update on the 2009 Private Activity Bond Cap allocation; and the staff and bond market updates.

Senator Leeper next called on John Hicks, Deputy Budget Director, Governor's Office of Policy Management, to discuss a reporting item related to the Tourism, Arts and Heritage Cabinet, Department of Fish and Wildlife Resources. Mr. Hicks reported one

project within the Department of Fish and Wildlife Resources Fees-in-lieu-of Wetland or Stream Mitigation capital project pool for East Fork Little Sandy #4 Stream Mitigation in Lawrence County for restoration and enhancement of stream with a scope of \$817,700. No Committee action was required.

Mr. Hicks then reported that the Finance and Administration Cabinet has approved an unbudgeted project for the Kentucky Horse Park (KHP) to construct Equine Barns and a Covered Walkway. The project scope is \$3,480,000 (100% private funds) and provides for construction of three new barns and a covered walkway that connects to the Indoor Arena. The funds for this project have been collected by the KHP Foundation (Foundation), a non-profit corporation created in 1985 for the specific purpose of enhancing, expanding, and improving the KHP.

Representative Westrom asked what other projects have been funded by donations to the KHP. John Nicholson, Executive Director, KHP, said about \$17 million has been collected by the Foundation since its inception. Mr. Nicholson said several projects have been completed because of the donations. Some of the projects include: four barns built in the 1980's; museum exhibits; and competitive facilities such as rings.

Senator Carroll made a motion to approve the KHP project. The motion was seconded by Representative Westrom and passed unanimously by roll call vote.

Next Senator Leeper recognized Charles Bush, Director, Division of Real Properties, Finance and Administration Cabinet, to report lease modifications. Mr. Bush reported four lease modifications. The first lease modification was for the Transportation Cabinet (Cabinet), Division of Drivers Licenses (PR-3896) in Jefferson County. The Cabinet requested to renovate the reception areas to improve security. The cost of the modifications, \$2,474, will be amortized over the remaining lease term (through June 30, 2009). The Cabinet's monthly rental cost will increase by approximately 24 cents. The second lease modification was for the Board of Physical Therapy (Board) (PR-4873) in Jefferson County. The Board requested renovations to the area outside the exterior door leading into the facility for improved client safety and an awning to address water leakage at the entrance. The cost of the modifications, \$1,701.60, will be amortized over the remaining lease term (through June 30, 2015). The Board's monthly rental cost will increase by approximately 2 cents. The third lease modification was for the Council on Postsecondary Education (Council) (PR-3761) in Franklin County. The Council requested a supplemental cooling capacity for the network room that supports their network equipment. The cost of the modifications, \$4,400, will be amortized over the remaining term of the lease (through June 30, 2012). The Council's monthly rental cost will increase by less than one cent. The last lease modification was for the Cabinet for Health and Family Services (CHFS) (PR-1352) in Jessamine County. CHFS requested security improvements to their facility. The cost of the modifications, \$7,980, will be

amortized over the remaining lease term (through June 30, 2011). The monthly rental cost will increase \$295.56. No Committee action was needed.

Mr. Leeper called on Suzanne Anderson, Financial Analyst, and Debby Milton, Financial Analyst, Kentucky Infrastructure Authority (KIA) to present several loans and a grant. The first loan request was for an increase to a previously approved \$11,235,755 Fund A loan for the City of Nicholasville (City), Jessamine County. The City is requesting a \$1,123,577 (10%) increase to be used for the closure plan for the Brown Street wastewater treatment plant, additional costs related to construction of a manhole, meter modifications, and electrical work. The new loan amount is \$12,359,352. The loan term is 20 years with an interest rate of three percent.

Representative Damron made a motion to approve the Fund A loan increase for the City of Nicholasville. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

Ms. Anderson next presented a Fund A loan request for the Paducah McCracken Joint Sewer Agency (JSA), McCracken County. JSA is requesting a \$10,000,000 Fund A loan to construct 1) a pump station, 2) force main connecting to the Paducah wastewater treatment plant, and 3) sewer main to the Information Age Park. The loan term is 20 years with an interest rate of three percent.

Senator Carroll made a motion to approve the Fund A Loan for the JSA in McCracken County. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

The last loan presented was for an increase to a previously approved \$8,000,000 Fund F Loan for the City of Nicholasville (City), Jessamine County. The City is requesting an \$800,000 (10%) increase to be used to 1) install new hardware and software for the SCADA system, and 2) purchase a new transformer and voltage regulator. The new loan amount is \$8,800,000. The loan term is 20 years with an interest rate of three percent.

Senator Carroll made a motion to approve the Fund F Loan for the City of Nicholasville. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

Ms. Anderson next discussed a request from the City of Williamstown (City) for a 2020 grant (Water Resources Development Bond Program) in the amount of \$548,378. The grant would be used for the planning phase of the Lake Williamstown Expansion Project. This planning project would eventually lead to the construction phase for the proposed expansion of Lake Williamstown from its current 300 acres to 1,300 acres. This project will serve three purposes: construct a new, structurally sound dam; provide an

adequate future water supply to the region; and spur significant regional economic development.

In response to questions from Senator Buford, Ms. Milton said that the Army Corps of Engineers (Corps) did an initial study about eight years ago which is ongoing. She indicated that the project will have five phases. Ms. Milton also said that the City has not yet identified any sources of funding for the construction of the project and is hopeful to receive grant money.

In response to questions from Representative Damron, Ms. Milton said that the project is not a Corps project at this time and that the City will need the Corps approval to expand the dam. Ms. Milton indicated that the City has started the process to obtain a permit from the Corps. Ms. Milton said that the 2020 grant funds would mainly go to engineers for the planning phase of the project.

Bill Mitchell, Lake Williamstown Expansion Committee, came to the table to further respond to questions concerning the project. Mr. Mitchell indicated that the core of the grant funds will go towards acquiring the Section 404 construction permit and the Section 401 water quality permit. The Corps has been involved in the entire planning process of the project and has also provided the City with instructions on how to proceed with the planning to expand the dam.

In response to questions from Senator Buford, Mr. Mitchell said that the City had not had any water shortages. Mr. Mitchell indicated that the project is a multi-county effort and will benefit many residents in the region. He said the City is currently drawing about 2 million gallons per-day of water out of the lake. With the expansion, up to 10 million gallons per-day could be drawn from the lake.

Senator Tori asked if it makes sense to proceed with such a large project rather than address the structural conditions of the dam first. Mr. Mitchell responded that City officials wanted to develop a body of water that could serve the region in addition to repairing the dam. Repairing only the dam would not have an economic impact on the region or increase the water supply.

In response to additional questions from Senator Tori, Mr. Mitchell said that the City is looking to the future and that the project has momentum to move forward. He indicated that if the City stopped the planning now, even during the tough economic times, the project could lose its momentum.

In response to questions from Representative Westrom, Mr. Mitchell said that the dam does not currently pose safety issues nor is it in imminent danger of collapse. However, he said that the dam is leaking and is in need of repair. The City has had several open meetings with citizens regarding the proposed expansion project and has yet

to meet opposition to the project. Mr. Mitchell said the estimated cost for the construction of the expansion project would be about \$50 million.

Senator Tori asked if the project would generate any rate increases for residents. Mr. Mitchell said the City currently does not have any indication of whether or not rates would increase. However, several economic analyses have been prepared which indicate that because of the economic impact the project would have on the region, the money would be recouped in approximately 22 years.

Senator Buford asked if this project is more about economic development or the need for water. Mr. Mitchell said both issues were significant factors in the expansion of the lake.

Senator Carroll made a motion to approve the 2020 grant for the City of Williamstown. The motion was seconded by Senator Leeper. Two members voted affirmatively, one member voted "No," and three members passed. The motion did not pass.

Senator Leeper asked if any members would like to explain their votes.

Senator Buford explained his pass vote. He indicated he would like to see a report before making a determination.

Senator Carroll explained his yes vote. He said that the money is needed upfront in order for the project to continue because the Corps will not provide a permit until the planning phase has been completed.

Senator Tori explained her no vote. She said that the timing for the project is not right and that it would not be harmful to hold the project until the economic crisis turns around.

Representative Damron explained his pass vote. He said that the 2020 program was developed to provide drinking water to areas of the state that are unserved. He also indicated that he thought this project has nothing to do with drinking water and he is concerned with allocating money from the 2020 program fund for this type of project. He said that other sources of funding should be used for this type of project.

Representative Westrom explained her pass vote. She indicated that until she receives a broader education on the project, she does not feel comfortable voting on it.

Senator Leeper next called on Brett Antle, Deputy Director, Office of Financial Management (OFM). Mr. Antle provided a follow-up report for the University of Kentucky General Receipts Bonds (Commonwealth Library), 2009 Series A bond issue, in the amount of \$34,465,966. Proceeds from this bond issue will refund outstanding

Lexington-Fayette Urban County Government Governmental Project Revenue Refunding Bond Series, 1998 (UK Alumni Association, Inc. Commonwealth Library Project). The 1998 bonds refunded bonds issued in 1994 to construct the university's central library. No Committee action was needed.

Mr. Antle then reported three new bond issues with the School Facilities Construction Commission (SFCC) debt participation for Christian County, Corbin Independent in Whitley County, and Ohio County.

Senator Buford made a motion to approve the SFCC new bond issues. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

Representative Damron indicated he had some concerns to address with the Committee regarding the Semi-Annual Report of the Kentucky Asset/Liability Commission. He asked Mr. Antle and Mr. Hicks about the \$5 million of Lehman Brothers bonds, which were sold at a loss of \$4.5 million. Mr. Antle said the Commonwealth did realize a loss on the Lehman Brothers bonds and OFM's investment staff would be able to provide further information. Mr. Antle also said that the Commonwealth had held \$25 million of Lehman Brothers notes in the securities lending program. [These obligations defaulted.] He explained that the State Investment Commission (Commission) has entered into an agreement with Credit Suisse to recoup the losses over time.

Representative Damron asked what the estimated loss was for the Lehman Brothers notes. Mr. Antle responded that there ultimately should not be a loss on the securities lending transaction because the Commission has agreed to swap the notes, along with other securities held in the programs with Credit Suisse for Credit Suisse debt. Representative Damron asked what the market value of the Credit Suisse notes would be if the Commonwealth sold them today. Mr. Antle indicated that he would provide the information to Committee staff.

Representative Damron asked what the credit ratings of the municipal, corporate, mortgage pass-through, and asset-backed securities in the portfolio are and if the portfolio has any subprime mortgage exposure. Mr. Antle said he would provide the information to Committee staff.

Representative Damron asked if all the debt authorized by the General Assembly in the 2004 and 2006 Budgets has been issued for water and sewer projects. Mr. Hicks responded that most of the debt has been issued. Mr. Antle added that the debt authorized in the 2004 and 2006 Budgets has been covered under a plan of finance, although not all the permanent bonds have been sold.

Representative Damron indicated that he was asking this question because Jessamine County was approved for several projects and then told they had to wait for funding because the bonds have not been sold. Representative Damron said he was concerned about why the money for some of these projects is not available when the money was specifically set aside. Mr. Hicks indicated that the Commonwealth is currently looking at the amounts available from the bonds that have been issued and the immediate cash flow needs for priority projects for the 2008-10 KIA Non-Coal pool. The Commonwealth is currently working with KIA to identify a solution. The 2004-06 pool is the current target. The 2006-08 pool has not been fully issued, but there is some liquidity and bond proceeds that have not been fully expended. The 2004-06 pool appears to be the immediate answer for the cash flow needs for priority 2008-10 projects. The Commonwealth is working with KIA staff to accurately measure how much is needed for these projects through June 30, 2009. Beginning July 1, 2009 the Office of the State Budget Director (OSBD) will work with OFM staff to make financing available for the Non-Coal 2008-10 pool.

Representative Damron said that as he understands it, the Commonwealth still has bonds that were authorized by the General Assembly in the 2006-08 Budget that have not been issued. Mr. Hicks responded that the Commonwealth has spent about \$90 million of the \$150 million so far.

Representative Damron asked if the losses in the market created this cash flow crunch of not being able to fund these projects. Mr. Antle responded that this is not the case.

Senator Buford asked Mr. Antle if he feels comfortable with the swap arrangement with Credit Suisse. Mr. Antle said he is not in charge of the portfolio, but would provide the information the Committee has requested.

Senator Buford then asked if anyone is currently studying the pension system. Mr. Hicks said he was not familiar with a recent study. Senator Buford said he would like to know if the General Assembly's action has been successful.

Senator Leeper called Ms. Anderson and Ms. Milton back to the table to report on the various new coal/tobacco development grants. Ms. Milton said there were 76 new projects from HB 2006-08 and that Mr. Hicks has addressed the funding dilemma. Funding is not currently available for these projects, but KIA is working with the OSBD and will hopefully have about \$7 million available for the projects.

Senator Leeper asked what the term "non-priority" funding means. Ms. Milton responded that of the 600 line-item grants, there was a group of projects that were identified as priority, which means that those projects had environmental issues and were ready to start construction. Those projects were funded first and the bulk of the priority

projects is about \$50 million in Coal projects. Bonds were sold and those projects are drawing down funds now. The remainder is approximately \$15 million for Non-Coal projects. These are the projects currently in question because the bonds cannot be sold until after July 1, 2009.

Senator Buford asked if any of the current projects reported to the Committee from the 2006-08 Budget were receiving funds. Ms. Milton said that they were all non-priority projects and that KIA is currently getting them in line to draw funds. Senator Buford then asked when the funds would be available. Ms. Milton responded that KIA does not have a date and it could be as late as the fall before the funds are available. Mr. Hicks said the Commonwealth has told KIA that the bonds available for the Non-Coal pool will have financing around the beginning of the fiscal year. He said the reason the bonds have not yet been sold is because debt service was not appropriated for the bonds to be able to be sold prior to July 1, 2009.

Senator Leeper asked Mr. Mullis to report the new local school district bond issues. Mr. Mullis said that there were two school district bond issues with 100 percent local debt service support: Kentucky Interlocal School Transportation Association and Madison County. All disclosure information has been filed. No Committee action was required.

With there being no further business, Senator Buford made a motion to adjourn the meeting. The motion was seconded by Senator Carroll and the meeting adjourned at 2:15 p.m.